

CITY OF SAN JOSE

2004-2005 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS

Overview

The City's debt service obligations include general obligation bonds, revenue bonds (enterprise funds), City of San José Financing Authority revenue or lease revenue bonds, commercial paper, special assessment bonds, community facilities district bonds, Redevelopment Agency debt and capital lease obligations.

- **General obligation bonds** are issued to finance various public improvements in the City for which the primary collateral for repayment is the ad valorem tax on property within the City.
- **Revenue bonds** are issued to acquire or construct assets owned by the City whereby the City pledges income derived from the asset or enterprise to pay the debt service.
- **City of San José Financing Authority revenue or lease revenue bonds** are secured by revenues that are defined under Trust Agreements and generally include lease payments received by the Authority under a Project Lease. The City makes the lease payments to the Authority and covenants to annually appropriate funds. These payments are included in the City Budget as part of the annual appropriation process.
- **Commercial paper** is a short-term promissory note issued by the City or its political subdivisions that has a maturity of 270 days or less. Maturing commercial paper (CP) notes are repaid from the proceeds of sale of new CP notes or bonds or from other funds provided by the City.
- **Special assessment bonds** are issued to pay for public infrastructure improvement costs in special assessment districts and are fully secured by liens against the privately owned properties benefited by the improvements for which the bonds were issued. The City of San José Financing Authority Reassessment Revenue Bonds, Series 1994A and 1994B, were issued to refund six series of City of San José special assessment bonds.
- **Community facilities district bonds** are issued to finance the construction and/or acquisition of facilities and the provision of certain services in community facilities districts (CFDs). The source of repayment for CFD bonds is a special tax on privately owned properties within the CFD.
- **Redevelopment Agency debt** is issued to construct public improvements in redevelopment project areas in accordance with California Community Redevelopment law. The principal source of repayment for Redevelopment Agency debt is future property tax increment revenues.

CITY OF SAN JOSE

2004-2005 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

Overview (Cont'd.)

- The City Council has adopted a general debt management policy, which allows flexibility when opportunities arise, but at the same time establishes parameters for entering into debt/capital lease obligations. In addition, Council has approved a supplemental Multifamily Housing Revenue Bond Policy and Residential Development Guidelines.

The City of San José Charter establishes the following requirements associated with debt limitations:

- Section 1216 sets the bonded debt limit for general obligation bonds at fifteen percent (15%) of the total assessed valuation of all the real and personal property within the City.
- Section 1220 establishes the power of the City Council to issue revenue bonds to finance the acquisition, construction, establishment, expansion, improvement, maintenance, operation, and administration of off-street vehicular parking facilities within the City or of municipal airport facilities. No additional authorization is necessary to issue bonds under this section of the City Charter.
- Section 1221 provides that no revenue bonds may be issued by the City for the purpose of supplying its inhabitants, or any portion thereof, with water, light, heat, power, railroad, or motor vehicle transportation services (other than airport service), or telephone, telegraph, or wireless communication service unless authorized by the affirmative vote of a majority of the electors voting on such a proposition in each case.
- Section 1222 states that revenue bonds may be issued by the City for any purposes other than those specified in Sections 1220 and 1221 only under and pursuant to the laws of the State of California.

Debt Status and Capacity

The City of San José Charter limits bonded indebtedness for General Obligation bonds to fifteen percent (15%) of the total assessed valuation of all real and personal property within the City. Based on the most recent figure available (June 30, 2003), the total taxable assessed value is estimated at \$89.8 billion, which results in a total debt capacity of approximately \$13.5 billion. As of June 30, 2004, the City anticipates it will have approximately \$178 million of General Obligation bonds outstanding.

The City, City of San José Financing Authority, and Redevelopment Agency total estimated outstanding debt as of June 30, 2004, is \$3.54 billion (See Table A). It should be noted that long-term lease obligations are not considered indebtedness under the State Constitution.

CITY OF SAN JOSE

2004-2005 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

Debt Status and Capacity (Cont'd.)

The Debt Management Policy for the City was adopted by the City Council on May 21, 2002. The first set of program-specific policies, related to the City's multifamily housing program, was adopted by the City Council on June 11, 2002.

During 2004-2005, the Business Plan of the Strategic Support City Service Area includes development of additional program-specific policies tailored to certain types of financings which may include, but are not limited to, the City's general obligation, lease revenue, enterprise and land-secured financings.

Descriptions of the City of San José's debt activity for 2003-2004 as well as issues planned for 2004-2005 are provided in the following sections.

2003-2004 Debt Issues

The Finance Department partnered with several City departments on projects that resulted in debt financing during 2003-2004.

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Housing Set-Aside Tax Allocation Bonds, Series 2003J (Taxable) and Series 2003K** On July 10, 2003, the Redevelopment Agency issued \$55.265 million of Series 2003J (taxable) and \$13.735 million of Series 2003K housing set-aside tax allocation bonds (the "Refunding Bonds"). The bond proceeds were used to current refund the Agency's Series 1993A and Series 1993B housing set-aside tax allocation bonds and advance refund the Agency's Series 1993C housing set-aside tax allocation bonds (collectively, the "Refunded Bonds"), repay \$12.635 million of the existing \$50 million line of credit with Bank of New York and fund additional affordable housing projects. The Series 2003J bonds bear interest at fixed rates ranging from 2.00% to 5.25%, and have a final maturity date of August 1, 2024. The Series 2003K bonds bear interest at fixed rates ranging from 2.00% to 4.45%, and have a final maturity date of August 1, 2029.
- **City of San José CFD No. 10 (Hassler – Silver Creek), Special Tax Bonds, Series 2003** On July 23, 2003, the City issued \$12.5 million of special tax bonds to finance the acquisition of certain roadway improvements necessitated by development in the Silver Creek area. The bonds are secured by special tax revenues paid by the owners of taxable parcels in Community Facilities District No. 10 ("CFD No. 10"). The CFD No. 10 bonds bear interest at fixed rates ranging from 3.30% to 5.25%, and have a final maturity date of September 1, 2023.

CITY OF SAN JOSE

2004-2005 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

2003-2004 Debt Issues (Cont'd.)

- **City of San José Financing Authority Lease Revenue Bonds, Series 2003A (Central Service Yard Refunding Project)** On September 18, 2003, the City of San José Financing Authority issued \$22.625 million of Series 2003A lease revenue bonds. The bond proceeds were used to current refund the Authority's Series 1993D lease revenue bonds issued to acquire and construct the City's Central Service Yard. The refunding generated a net present value saving of \$987,721. This saving represents a 4.45% net present value reduction in debt service payments while maintaining the final maturity date of the debt. The Series 2003A bonds, which are insured by Ambac, bear interest at fixed rates ranging from 3.00% to 4.70%, and have a final maturity date of October 15, 2023.
- **City of San José Financing Authority Tax-Exempt Lease Revenue Commercial Paper Program** On January 13, 2004, the City Council and the City of San José Financing Authority each adopted a resolution authorizing the issuance of City of San José Financing Authority tax-exempt lease revenue commercial paper notes in an amount not to exceed \$98 million. This commercial paper program was established as a mechanism for financing public improvements of the City including the offsite parking garage for the new Civic Center and non-construction costs for technology, furniture, equipment and relocation services for the new Civic Center. Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates for periods of maturity not to exceed 270 days. The commercial paper notes are secured by a pledge of lease revenues from various City assets and additionally secured by a letter of credit provided by State Street Bank and Trust Company and the California State Teachers' Retirement System (CalSTRS).
- **Multi-Family Housing Revenue Bonds** Federal Tax law requires an allocation of the State's private activity volume cap to finance multi-family housing projects on a tax-exempt basis. The City received allocations from the California Debt Limit Allocation Committee (CDLAC) and closed the following projects while complying with CDLAC regulations:

Allocations awarded on March 26, 2003, resulting in bond issuances in July and August 2003:

- Oaks of Almaden Apartments (\$8.35 million), closed July 29, 2003
- Cinnabar Commons Apartments (\$25.34 million), closed August 7, 2003

Allocations awarded on July 9, 2003, resulting in bond issuance in November 2003:

- Almaden Family Apartments (\$31.3 million), closed November 14, 2003

Allocations awarded on December 17, 2003, resulting in bond issuances in March 2004:

- Trestles Apartments (\$8.625 million), closed March 4, 2004

CITY OF SAN JOSE

2004-2005 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

2003-2004 Planned Debt Issues

The following debt issues are anticipated to close prior to the end of the fiscal year.

- **City of San José Financing Authority Taxable Lease Revenue Bonds, Series 2004A (Ice Centre Expansion Project)** In October, 2003, City staff began working with Silicon Valley Sports and Entertainment (SVSE) to develop a plan of finance for an additional skating rink at the City's Logitech Ice Centre. Staff currently anticipates issuing approximately \$9 million of City of San José Financing Authority taxable variable rate lease revenue bonds in May 2004 to fund the costs of the Ice Centre expansion. Debt service on the bonds will be paid from base rental payments received by the City from SVSE, the Ice Centre operator.
- **City of San José Airport Revenue Bonds, Series 2004** City staff are currently implementing a financing program to fund the Airport's security projects, including construction of the North Concourse Building. Initial costs of the projects are being paid from proceeds of the Airport's tax-exempt commercial paper notes. Those notes will be redeemed and additional costs funded with approximately \$250 million of proceeds from up to four separate series of Airport Revenue Bonds expected to be issued in June 2004. Staff estimates an additional \$160 to \$170 million of Airport Revenue Bond proceeds will be needed to fully fund the projects in 2006. The Airport's commercial paper program will again be utilized as an interim source of funding to provide flexibility between the anticipated June 2004 bond issuance and the anticipated 2006 bond issuance.
- **Multifamily Housing Revenue Bonds** The City received the following allocation from the California Debt Limit Allocation Committee (CDLAC):

Allocation awarded on April 21, 2004, resulting in bond issuance expected in June 2004:

- Aspen Vintage Tower Apartments (\$5.5 million)

2004-2005 Planned Debt Issues

- **Redevelopment Agency of the City of San José Merged Area Redevelopment Project Housing Set-Aside Taxable Revenue Bonds** In Summer 2004, the Redevelopment Agency is planning to issue a series of housing set-aside tax allocation bonds. The bond proceeds will be used to refund the Agency's outstanding Housing Set-Aside Revenue Bonds, Series 1993D, to repay draws on the \$50 million Housing Department Line of Credit, and to fund additional affordable housing projects. The timing of this issuance depends on the programmatic cash flow needs of the Housing Department and the resulting speed with which it draws down its Line of Credit. Additionally, City staff is working with CDLAC to develop a program whereby the City would apply for tax-exempt CDLAC private activity allocation for the purpose of issuing tax-exempt bonds to fund the City's loans to affordable housing projects.

CITY OF SAN JOSE
2004-2005 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

2004-2005 Planned Debt Issues (Cont'd.)

- **General Obligation Bonds, Series 2004 (Libraries, Parks and Public Safety Projects)** The City plans to issue its third series of general obligation bonds in July 2004. The proceeds of those bonds will be used to fund a portion of the libraries, parks and public safety projects approved by voters in November 2000 and March 2002. The size and purpose of the bond issue will depend upon the expenditure and encumbrance needs of the various projects to be financed. Commercial paper may be used as an interim financing strategy in 2003-2004, if necessary.
- **General Obligation Bonds, Series 2005 (Libraries, Parks and Public Safety Projects)** The City plans to issue another series of general obligation bonds in late Spring 2005. The proceeds of those bonds would be used to fund a portion of the libraries, parks, and public safety projects approved by voters in November 2000 and March 2002. The timing, size, and purpose of the bond issue will depend upon the expenditure and encumbrance needs of the various projects to be financed.
- **Multifamily Housing Revenue Bonds** The Housing Department anticipates submitting an application to CDLAC on behalf of the following project, with allocation scheduled to be awarded on September 15, 2004:
 - Delmas Park Apartments (\$20 million)

CITY OF SAN JOSE
2004-2005 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(A) Summary of Estimated Changes in Long-Term Debt for the Year Ending June 30, 2004
(In Thousands of Dollars)

	Balance July 1, 2003	Additions to Long-Term Obligations	Current Maturities and Retirements	Estimated Balance June 30, 2004
GENERAL LONG TERM DEBT				
General Obligation Bonds	184,720		6,240	178,480
Special Assessment Bonds with Limited Governmental Commitment	80,708	12,500	8,066	85,142
Obligations Under Capital Lease	81		65	16
CITY OF SAN JOSE FINANCING AUTHORITY				
REVENUE BONDS PAYABLE				
Lease Revenue Bonds, Series 1993A (Taxable)	535		535	0
Lease Revenue Bonds, Series 1993B	11,715	327	530	11,512
Lease Revenue Bonds, Series 1993D	22,210		22,210	0
Lease Revenue Bonds, Series 1997A	6,525		130	6,395
Lease Revenue Bonds, Series 1997B	6,410		1,015	5,395
Lease Revenue Bonds, Series 2000B	22,380		135	22,245
Lease Revenue Bonds, Series 2000C (Taxable)	22,200			22,200
Lease Revenue Bonds, Series 2001B (Taxable)	24,000			24,000
Lease Revenue Bonds, Series 2001C (Taxable)	18,500			18,500
Lease Revenue Bonds, Series 2001D	10,800			10,800
Lease Revenue Bonds, Series 2001E	15,440		1,720	13,720
Lease Revenue Bonds, Series 2001F	185,440		4,050	181,390
Lease Revenue Bonds, Series 2002B	292,425			292,425
Lease Revenue Bonds, Series 2002C	60,000			60,000
Lease Revenue Bonds, Series 2002D	60,000			60,000
Lease Revenue Bonds, Series 2003A		22,625		22,625
Lease Revenue Bonds, Series 2004A (Taxable)*		9,345		9,345
Reassessment Revenue Bonds, Series 1994A	2,815		1,410	1,405
Reassessment Revenue Bonds, Series 1994B (Subordinate)	2,145		615	1,530
Revenue Bonds, Series 2001A	47,545		1,175	46,370
REDEVELOPMENT AGENCY				
Housing Tax Allocation Bonds	113,375	69,000	41,600	140,775
Housing Tax Allocation Bonds (Subordinate)	70,000			70,000
Redevelopment Tax Allocation Bonds	1,422,550	135,000	28,395	1,529,155
Redevelopment Tax Allocation Bonds (Subordinate) and Other	63,315	60,000	190	123,125
CITY OF SAN JOSE ENTERPRISE FUNDS				
Bonds Payable*	368,055	250,000	9,810	608,245
TOTAL	3,113,889	558,797	127,891	3,544,795

* Includes preliminary estimates for debt not yet issued as of the date of publication.

CITY OF SAN JOSE

2004-2005 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(B) Summary of Estimated Bonds and Notes Payable at June 30, 2004 by Individual Issue

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
CITY OF SAN JOSE			
General Obligation Bonds, Series 2001	2031	4.25-5.125%	66,260
General Obligation Bonds, Series 2002	2032	3.0-5.0%	112,220
Total City of San José			<u>178,480</u>
SPECIAL ASSESSMENT BONDS WITH LIMITED GOVERNMENTAL COMMITMENT			
	2032	Various	85,142
OBLIGATIONS UNDER CAPITAL LEASES	2005	Various	<u>16</u>
CITY OF SAN JOSE FINANCING AUTHORITY			
Lease Revenue Bonds, Series 1993B	2018	5.40-6.00%	11,513
Lease Revenue Bonds, Series 1997A	2027	5.30-5.60%	6,395
Lease Revenue Bonds, Series 1997B	2012	4.35-4.875%	5,395
Lease Revenue Bonds, Series 2000B	2030	4.70-5.50%	22,245
Lease Revenue Bonds, Series 2000C (Taxable)	2024	Variable Rate	22,200
Lease Revenue Bonds, Series 2001B (Taxable)	2024	Variable Rate	24,000
Lease Revenue Bonds, Series 2001C (Taxable)	2024	Variable Rate	18,500
Lease Revenue Bonds, Series 2001D	2026	Variable Rate	10,800
Lease Revenue Bonds, Series 2001E	2010	4.00-5.00%	13,720
Lease Revenue Bonds, Series 2001F	2022	4.00-5.00%	181,390
Lease Revenue Bonds, Series 2002B	2037	3.00-5.25%	292,425
Lease Revenue Bonds, Series 2002C	2039	Variable Rate	60,000
Lease Revenue Bonds, Series 2002D	2039	Variable Rate	60,000
Lease Revenue Bonds, Series 2003A	2023	3.00-4.70%	22,625
Lease Revenue Bonds, Series 2004A (Taxable)*	2024	Variable Rate	9,345
Reassessment Revenue Bonds, Series 1994A	2005	5.40%	1,405
Reassessment Revenue Bonds, Series 1994B (Subordinate)	2007	6.00%	1,530
Revenue Bonds, Series 2001A	2026	3.80-5.25%	46,370
Commercial Paper Notes*	Short Term	Various	43,000
Total City of San José Financing Authority			<u>852,858</u>
REDEVELOPMENT AGENCY			
Housing Tax Allocation Bonds	2030	2.00-7.80%	140,775
Housing Tax Allocation Bonds (Subordinate)	2029	Variable Rate	70,000
Redevelopment Tax Allocation Bonds	2033	3.00-6.00%	1,529,155
Redevelopment Tax Allocation Bonds (Subordinate) and Other	2032	Variable Rate	123,125
Total Redevelopment Agency			<u>1,863,055</u>

CITY OF SAN JOSE

2004-2005 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(B) Summary of Estimated Bonds and Notes Payable at June 30, 2004 by Individual Issue (Cont'd.)

	<u>Due To</u>	<u>Effective</u>	<u>(\$ Thousands)</u>
ENTERPRISE FUNDS			
Norman Y. Mineta San José International Airport			
Revenue Bonds, Series 1994	2007	5.875%	5,380
Revenue Refunding Bonds, Series 1998A	2018	4.20-4.75%	11,140
Revenue Bonds, Series 2001A	2031	3.05-5.25%	155,435
Revenue Refunding Bonds, Series 2002A	2018	4.00-5.375%	53,600
Revenue Refunding Bonds, Series 2002B (AMT)	2012	3.00-5.00%	36,945
Revenue Bonds, Series 2004A (AMT)*	2034	Variable Rate	70,000
Revenue Bonds, Series 2004B (AMT)*	2034	Variable Rate	70,000
Revenue Bonds, Series 2004C*	2034	4.875%	31,315
Revenue Bonds, Series 2004D (AMT)*	2030	2.75%-5.125%	78,685
Commercial Paper Notes*	Short Term	Various	32,678
Clean Water Financing Authority:			
Revenue Bonds, Series 1995A	2020	4.70%-5.375%	67,120
Revenue Bonds, Series 1995B	2011	Variable Rate	26,700
Revenue Bonds, Series 1995C	2004	4.70%	1,925
State of California Revolving Loan	Short Term	Various	56,099
Total Enterprise Funds			<u>697,022</u>
GRAND TOTAL			<u><u>3,676,573</u></u>

* Includes preliminary estimates for debt not yet issued as of the date of publication.

CITY OF SAN JOSE
2004-2005 PROPOSED OPERATING BUDGET

DEBT SERVICE OBLIGATIONS (CONT'D.)

(C) Annual Requirements to Amortize All Bonds and Notes Estimated to be Outstanding
as of June 30, 2004
(In Thousands of Dollars)

Year Ending June 30	City of San José General Obligation	Special Assessment Bonds	City of San José Financing Authority*	Redevelopment Agency	Enterprise Funds*
2005	14,491	9,848	55,813	142,244	41,071
2006	14,265	7,586	57,313	142,504	43,334
2007	14,040	7,424	56,378	143,751	43,626
2008	13,795	7,431	56,169	144,190	50,695
2009	13,536	7,000	56,564	144,558	50,761
Thereafter	234,088	99,257	1,317,977	2,946,989	892,201
Total	304,215	138,546	1,600,214	3,664,236	1,121,688

* Includes preliminary estimates for debt not yet issued as of the date of publication.